

**California Debt and
Investment Advisory Commission**
**“Managing On-Going Responsibilities for
Variable Rate Financings
and Interest Rate Swaps”**

Long Beach, California

April 20, 2007

Case Study:

**The Metropolitan Water District
of Southern California**

Overview

- Overview of Metropolitan
- Outstanding Debt
- Variable Rate Program Management
- Interest Rate Swap Management

Overview of Metropolitan



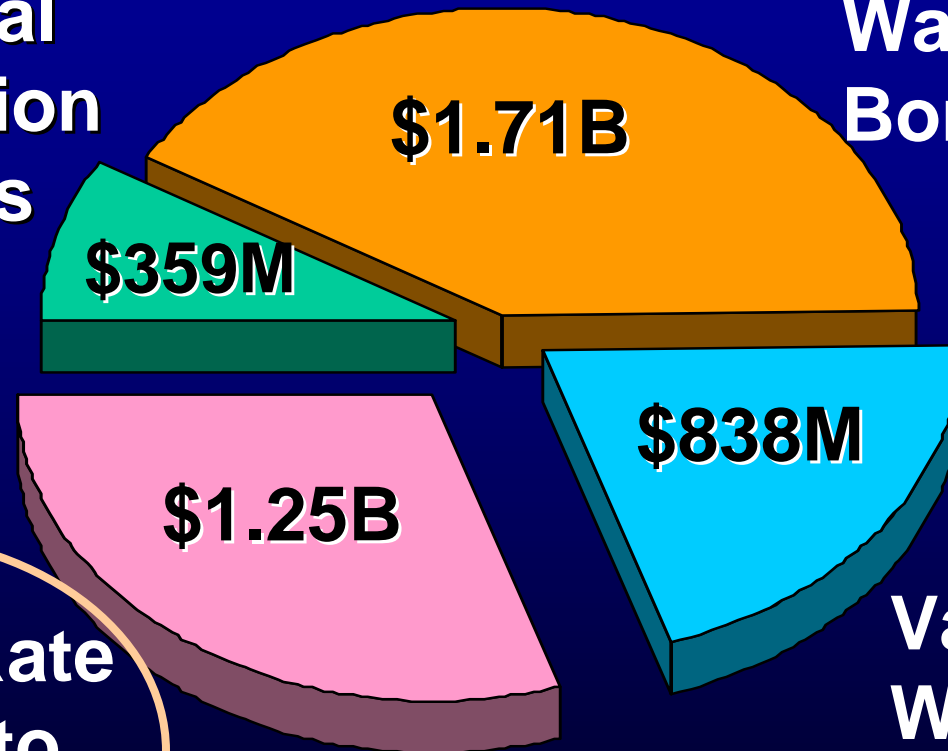
- AA+ / Aa2 / AA+
- Six counties: 5,200 square miles
- 18 million people
- Wholesale provider
- Import water from Colorado and Northern California
- Regional economy: \$887 billion
- Capital Program: \$2.0B next 5 years
- MWD provides 50% to 60% of water in Southern California

Total Debt Outstanding

\$4.16 Billion

General
Obligation
Bonds

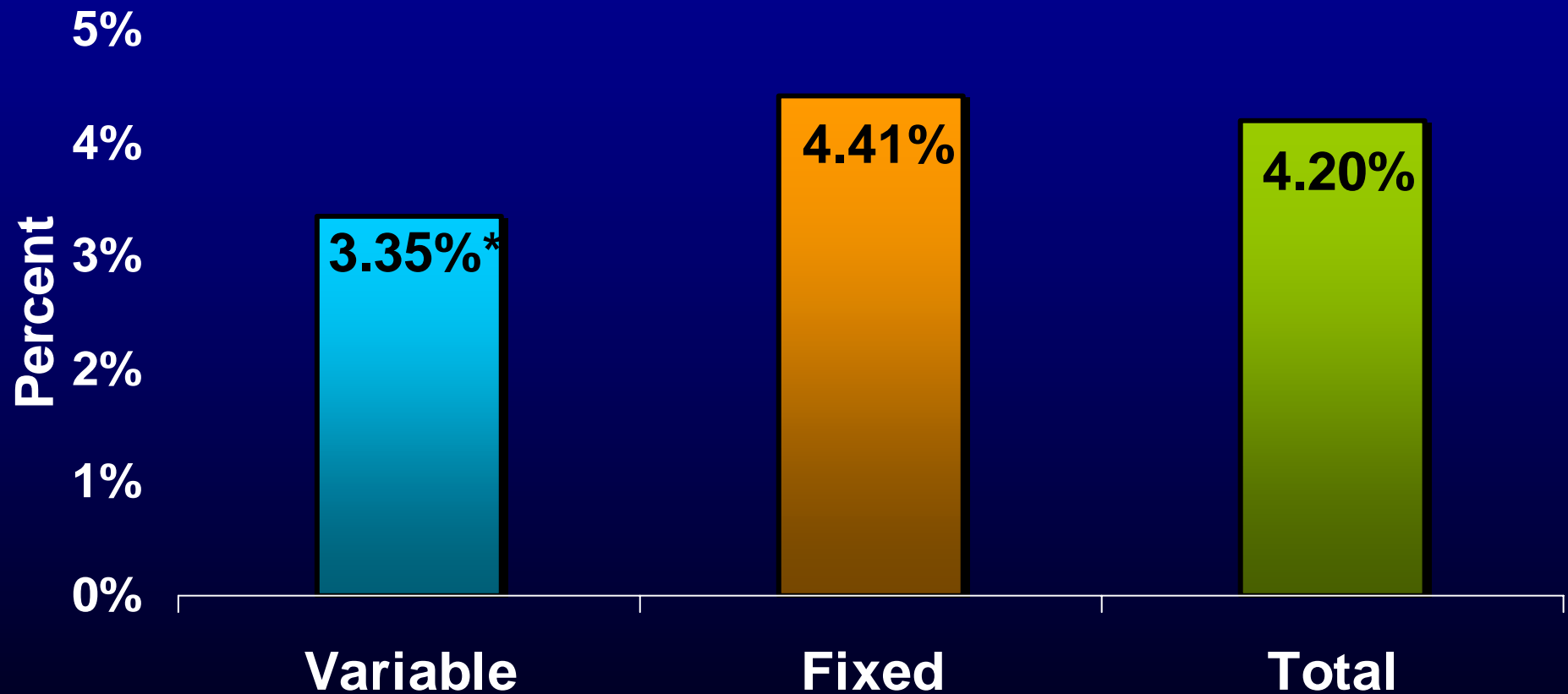
Fixed Rate
Water Revenue
Bonds



Variable Rate
Swapped to
Fixed Rate

Variable Rate
Water Revenue
Bonds

Cost of Metropolitan's Outstanding Revenue Bond Debt



* 12 month average; includes re-marketing and LOC fees.

Metropolitan's Variable Rate Program

- **\$2.1 billion outstanding**
 - **\$1.99 billion variable rate revenue bonds**
 - **\$1.25 billion swapped to a fixed rate**
 - **\$100 million auction rate securities**

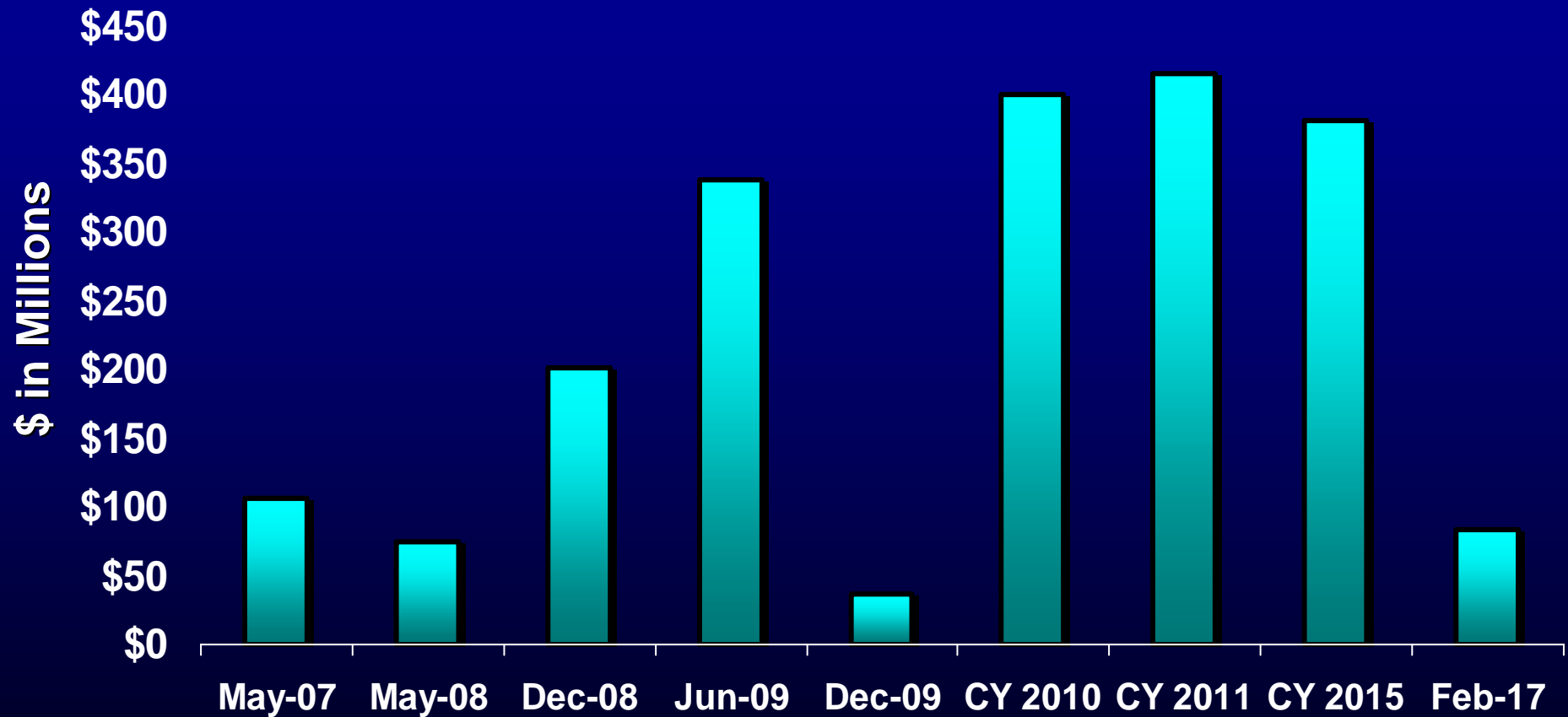
Variable Rate Revenue Bonds

Managing the Program

- \$1.99 billion outstanding
- Series of bonds: 24
- Size of each series: \$37M to \$135M
 - monthly and semi-annual payments
- Remarketing agents: 9
 - quarterly payments
 - performance measurement
- Liquidity banks: 9 (standby bond purchase agreements)
 - quarterly payments

Liquidity Facilities

Projected Expirations



Auction Rate Securities

- \$100 million outstanding
- Two Series: 7-day payments
- Broker Dealers: 4 (will increase)
- Plan to increase size of ARS program to at least \$1 billion
- Daily auctions (with multiple series)
- Daily payments (accounting for multiple dealers)

Auction Rate Securities

Managing the Program

Administrative Example

- **Three series of ARS each day**
- **Three separate auctions per day**
- **Five broker dealers for each auction**
- **15 “accounting payments” (3 series and 5 broker dealers each day)**
- **Payments each day of the week:
accounting for 75 separate payments**

Interest Rate Swap Payments

Managing the Program

- \$1.63 billion notional
- Number of Swaps: 20
- Notional amounts: \$6M to \$168M each
- Counterparties: 7
- Resets: weekly / monthly
- Monthly / Quarterly / Semi-Annual pays
- Mark to market reporting

Summary

- Managing a variable rate program may be more work than originally anticipated
- Managing a swap program may be even more of an administrative burden
- Plan for administrative requirements
- Staff requirements

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